



**University of
Zurich^{UZH}**

Department of Business Administration

**UZH Business Working Paper Series
(ISSN 2296-0422)**

Working Paper No. 321

**Organizational Implications of Managing Corporate
Legitimacy in Complex Environments –
A Longitudinal Case Study of Puma**

Dorothee Baumann-Pauly, Andreas Georg Scherer, & Guido Palazzo

03 November 2012

University of Zurich, Plattenstrasse 14, CH-8053 Zurich,
<http://www.business.uzh.ch/forschung/wps.html>



**University of
Zurich^{UZH}**

UZH Business Working Paper Series

Contact Details

Dorothee Baumann-Pauly

University of Zurich
Department of Business Administration
HEC Lausanne
Department of Strategy
dorobaumann@gmail.com

Andreas Georg Scherer

University of Zurich
Department of Business Administration
andreas.scherer@uzh.ch

Guido Palazzo

HEC Lausanne
Department of Strategy
guido.palazzo@unil.ch

ORGANIZATIONAL IMPLICATIONS OF MANAGING CORPORATE LEGITIMACY IN COMPLEX ENVIRONMENTS – A LONGITUDINAL CASE STUDY OF PUMA

ABSTRACT

Corporations are operating in complex business environments. The globalization of markets has transformed the division of labor between governments and corporations and today, corporations are expected to take over a political role in global governance processes and provide public goods such as standards for safe work places or environmental protection. Corporations that assume economic *and* political responsibilities are, however, confronted with heterogeneous, often contradictory, demands of a highly diverse range of stakeholders. Managing these demands poses new organizational challenges for the corporation. In this paper, we explore how corporations respond to complex stakeholder environments and we analyze the legitimacy strategies that corporations employ to maintain their license to operate. In particular, we study the organizational prerequisites for managing legitimacy and how they are changing over time. We draw on the literature on institutional theory and organizational paradoxes and conduct an empirical case study at the sportswear manufacturer PUMA. The results of our qualitative longitudinal study show that managing corporate legitimacy is a dynamic concept and corporations learn over time to adequately adapt organizational capacities, structures and procedures. Based on the findings of our explorative case study, we conclude our article by formulating testable hypothesis.

KEYWORDS

Globalization, Legitimacy, Paradox, Sustainability

ACKNOWLEDGEMENTS

A previous version of this paper was presented at the 2012 European Group of Organizations Studies (EGOS) in Helsinki. We thank the EGOS participants for their helpful comments. Dirk Matten, William McKinley, Kathleen Rehbein, Sebastian Raisch, Andreas Rasche, Georg Schreyögg, and Douglas Schuler have provided helpful feedback on previous drafts of the paper; thank you all. This research project is sponsored by the SNF-Swiss National Science Foundation (Project No. 100014_129995).

INTRODUCTION

The concept of *corporate legitimacy*, the social acceptance of corporate practices (Ashford and Gibbs, 1990; Suchman, 1995), has gained relevance in organizational theory and practice in recent years. It is regarded as a critical resource for the survival of a corporation since it constitutes a precondition for the continuous flow of resources and for securing the sustained support of the organization's constituencies (Deephouse and Suchman, 2008). Since corporations are increasingly organized in multinational networks, they are confronted with highly complex social and environmental problems along their business operations which challenge their legitimacy (Chandler and Mazlish, 2005; Kobrin, 2001).

The sportswear manufacturer Nike, for example, operates in a highly heterogeneous legal and moral environment. Production takes place in approx. 600 factories in almost 50 countries. The company went through a major crisis in the 1990s, after a series of public relations nightmares – involving underpaid workers in Indonesia, child labor in Cambodia and Pakistan, and poor working conditions in China (Locke, 2002). These incidences triggered consumer boycotts and gave rise to the anti-sweatshop movement at US universities and elsewhere. These newly formed stakeholder groups pressured Nike to work towards creating fairer working conditions in its global supply chain. Inadequate regulation and monitoring in many of the production countries made it difficult, however, to follow-up on these demands (Locke, 2002). Nevertheless, given the expectations of Nike's shareholders to further reduce production costs, the company had no other option but to continue sourcing from low-cost countries *and* to address the concerns of labor activists (Levy, 2005). The company had to learn to reconcile contradicting stakeholder demands and this learning process also required a number of organizational adjustments (Locke, 2002; Zadek, 2004). For example, while the company was initially not prepared to handle the criticism (Nike managers sought to ignore

and/or deflect criticism), the company today employs over 100 staff that work on ensuring fairness in Nike's supply chain (Zadek, 2004). The literature that documents this organizational change process is not focused on the management of corporate legitimacy and falls short of a detailed analysis of the organizational adjustment process (see Zadek, 2004).

The analysis of the corporate responses and their organizational implications is critical in the context of legitimacy (Oliver, 1996) because corporations need to develop and foster structures and procedures that serve as sensitive antennas for conflicting stakeholder demands. Empirical studies on corporate response strategies to environmental demands, their organizational implications and their influence on the perception of corporate legitimacy in complex and heterogeneous environments are currently lacking (see, e.g. Greenwood et al., 2011). The objective of this paper is to fill this research gap and to explore how corporations maintain their legitimacy and respond to heterogeneous and often contradictory demands by applying and balancing different legitimacy strategies at the same time.

We employ the insights from recent research streams in organization theory, such as organizational paradox (Smith and Lewis, 2011), organizational fluidity (Schreyögg and Sydow, 2010), and organizational ambidexterity (Raisch et al., 2009) to guide our research on managing legitimacy. We use the term organizational paradox literature as an umbrella term. Although authors from this particular literature are not explicitly focusing on legitimacy, we argue that their insights are useful for conceptualizing empirical case studies on legitimacy management and the organizational responses to complex institutional demands (Greenwood et al., 2011). We analyze the response strategies and their organizational implications of the German sportswear manufacturer Puma, a company that is operating in a particularly challenging stakeholder environment. The longitudinal analysis of qualitative data from 2003 and 2011 allows us to track the development of Puma's response strategies and the organizational

learning process over time. Based on the theoretical insights and the evidence from the empirical case study we suggest that (1) corporations employ different legitimation strategies at the same time, (2) corporations learn over time to activate the most appropriate response strategy, (3) corporations create the organizational prerequisites for effectively managing corporate legitimacy, and (4) leadership and open communication channels are critical for building the organizational capacities to manage corporate legitimacy.

The paper has the following structure. In the first part, we elaborate on the theoretical concepts and identify the organizational elements that are critical for managing corporate legitimacy. In the second part, we describe the research methodology that we use to analyze corporate response strategies. In part three we outline our empirical results and summarize our findings. In the final part, we discuss our research contribution and conclude with suggestions for further research.

THEORETICAL INSIGHTS - COMPLEX ENVIRONMENTS AND CORPORATE RESPONSE STRATEGIES TO LEGITIMACY CHALLENGES

Managing Organizational Legitimacy in Complex Stakeholder Environments

Corporations are considered legitimate when their organizational practices correspond with the social expectations of their environment (Deephhouse and Suchman, 2008; DiMaggio and Powell, 1983). If social actors perceive a mismatch between the corporation's behavior and societal expectations, the legitimacy of the corporation is disputed, as illustrated by the example of Nike. Today, multinational corporations are facing growing societal expectations (Kaul et al., 2003) which connect more stakeholders with diverse interests to the process of corporate decision-making (Child and Rodrigues, 2011; Lamin and Zaheer, 2012). For instance, inherent tensions exist between stakeholder groups that argue for compliance with social standards in global production activities (e.g. labor rights activists) versus groups that are in

favor of reducing production costs or creating financial value (e.g. investors). In this context, creating a so-called “win-win” solution that leaves both groups better off is difficult to achieve and hence satisfying all stakeholder groups equally is not always possible. Corporations are thus facing a dilemma: satisfying one demand may require violating others, thus potentially jeopardizing organizational legitimacy (Pache and Santos, 2010). We suggest that in their quest to maintain their legitimacy, corporations must therefore activate various *legitimation strategies* in order to balance such paradoxical, incompatible demands.

Suchman (1995) describes three forms of legitimacy (cognitive: social acceptance based on unconscious taken-for-grantedness; pragmatic: social acceptance based on perceived benefit; and moral: social acceptance as a result of an explicit discourse) and outlines three corresponding legitimation strategies: *adaptation* of organizational practices to social expectation, *manipulation* of expectations and perceptions of relevant stakeholders, and *argumentation* in moral discourse in order to develop new common solutions. Which legitimation strategy is appropriate in a given environmental context, however, remains unclear in Suchman’s conceptualization (see Scherer et al., 2013). Under conditions of comparably low complexity, the successful management of legitimacy by either passive isomorphic adaptation or by active strategic manipulation of social expectations was regarded as one of the preconditions for the survival of organizations (Oliver, 1991). With increasing environmental complexity in a global economy, Palazzo and Scherer (2006) suggest that corporations also have to engage in argumentation strategies in order to maintain their legitimacy. However, the organizational prerequisites of the legitimation strategies (and their potential combinations) have not yet been explored (Lamin and Zaheer, 2012). With increasingly heterogeneous expectations, corporations face a dilemma: satisfying one stakeholder group (by adaptation or manipulation) will not satisfy others, and corporations hence risk that their legitimacy is being challenged by less satisfied groups, once a particular legitimacy strategy is chosen (Pache and Santos, 2010:

463). It has been argued that under the condition of high heterogeneity with regards to societal expectations, the strategy of argumentation through discourse with stakeholders becomes more important (Palazzo and Scherer, 2006). From a longitudinal perspective, we expect the strategy of argumentation to be of growing importance given the increasing heterogeneity of corporate environments. Scherer et al. (2013), however, also point out that corporations do not have the time and the resources to engage in argumentation in every instance as discourses with stakeholders are costly. Apparently, the various legitimacy strategies have their own limitations. The adaptation to any kind of external expectations might not be useful and the manipulation of stakeholder expectations might not be possible. We assume that corporations will draw on several legitimation strategies in parallel despite of the (latent) conflict between them. This, however, requires the ability to activate multiple legitimacy strategies simultaneously and to understand, which strategy is the most appropriate in a given context. This implies that corporations need to build the necessary organizational capacities to evaluate and chose the different legitimacy strategies and to implement them in parallel.

Organizational Implications of Managing Legitimacy

Typically, stakeholders ascribe legitimacy to organizations in their entirety. Yet, the failure of any subsystem within the organization (e.g. procurement or public affairs) can cause changes in public perceptions and result in the decline and eventually in a collapse of legitimacy for the entire organization. Nike, a company known for innovative marketing and design, became the poster child for the anti-globalization and sweatshop movement due to incidences in its supply chain. Phil Knight, the CEO of Nike lamented in a May 1998 speech to the National Press Club “the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse.” This empirical example shows that even the design of individual organizational subunits (e.g. in the Nike case the policies of the sourcing department) can be critical

for the perception of corporate legitimacy. For analyzing how corporate legitimacy is managed, it is therefore necessary to zoom into the organization and assess how organizational subunits (typically on a departmental level) respond to legitimacy challenges, how they coordinate their responses with other subunits and how conflicting demands are being handled (Delmas and Toffel, 2008).

This claim is supported by the theoretical insights from contingency theory (Lawrence and Lorsch, 1967; Thompson, 1967; Donaldson, 2001) and institutional theory (Delmas and Toffel, 2008; Greenwood and Hinings, 1996). We argue that the ideas of the theoretical lens of contingency theory are analogous to the process of managing legitimacy. In contingency theory, corporations ensure organizational effectiveness by maintaining a fit between the contingencies of the environment and the organization's design (Lawrence and Lorsch, 1967; Thompson, 1967; Donaldson, 2001). Likewise, for managing legitimacy, corporations seek maintaining a fit between its operations and social expectations. There is no "one best way" approach for creating and maintaining this fit, but the functional subunits of an organization need to monitor the external demands, discuss these with other departments, and agree on a coordinated response. The study of Lawrence and Lorsch (1967) on the differentiation and integration in complex organizations highlights that *each functional subunit* of an organization deals with its *own, very specific environmental context* (Lawrence and Lorsch, 1967: 5). Institutional theory conceives of organizations as a "mosaic of groups structured by functional tasks" (Hinings and Greenwood, 1996: 1033) that are the basis of the differentiation into organizational subunits or departments (e.g. procurement, production, human resources, legal affairs, marketing etc). These subunits or departments create linkages with their specific target groups in the environment (e.g. marketing with customers, legal affairs with government officials etc.) and form "occupational communities" (Van Maanen and Barley, 1984) that are exposed to the same issues and share common professions, languages and views across different

organizations, but not so much with other departments of the same organization which may create tensions (Delmas and Toffel, 2008).

Given these insights from contingency theory and institutional theory, we argue that the functional subunits of an organization are the appropriate unit of analysis for empirical research on corporate response strategies to complex environments. The analysis of the specific environmental demands in relation to the subunit's functional objectives and the objectives of other organizational subunits will reveal the tensions and contradictions that organizations must deal with in order to maintain their legitimacy.

Our research project addresses corporate legitimacy strategies in dynamic environments and explores the organizational implications of corporate responses to institutional complexity and heterogeneous demands (for an overview see Greenwood et al., 2011; Schreyögg and Sydow, 2010). The discussion in this context acknowledges that the environmental demands on an organization are always to some degree in conflict and trade-offs are therefore necessary (March, 1991). Although these tensions can never be fully unraveled, the most successful organizations balance them to a large degree, and in so doing enhance their long-term competitiveness (Gibson and Birkinshaw, 2004). The dilemma of contradicting demands is captured in the vast array of extant paradox literature (for an overview see Smith and Lewis, 2011). *Paradoxes* are defined as contradictory yet interrelated elements that exist simultaneously and persist over time (Smith and Lewis, 2011: 382). Corporations, in their quest to maintain their corporate legitimacy, must therefore develop organizational designs and competences that enable the corporation to manage these paradoxes and flexibly adapt to changing situational requirements (Pache and Santos, 2010; Scherer et al., 2013).

In light of increasingly complex and dynamic environments, some organizational scholars advocate the idea of organic fluidity that enables the organization to rapidly change strategies

and adapt to new environmental demands if necessary (Brown and Eisenhardt, 1998; Gibson and Birkinshaw, 2004; Siggelkow and Rivkin, 2005). Organizational forms that allow for structural fluidity, such as modular organizations (Sanchez and Mahoney, 1996) or latent organizations (Starkey et al., 2000), are able to accommodate environmental complexities yet they ignore the hidden institutional dynamics that often prevail in organizations (Schreyögg and Sydow, 2010). Path-dependence, recursive practices, economies of specialization or mechanisms that foster identity stand in stark contrast to the imperative of flexibility yet they cannot be entirely eliminated through fluid organizational design (Schreyögg and Sydow, 2010). Moreover, hyper-flexible models based on relentlessly changing templates, quick improvisation, and ad hoc responses conflict with efforts to achieve organizational efficiency (Schreyögg and Sydow, 2010). Organizational features that typically advance efficiency – formal rules and routines – ensure that performance is repeatable and reliable. To make use of the advantages of efficient bureaucratic replication, rigid organizational elements are therefore also desirable. To manage corporate legitimacy without jeopardizing organizational efficiency, corporations must therefore be able to exploit current capabilities while simultaneously exploring fundamentally new competencies. To perform such paradoxical processes (see Graetz and Smith, 2008; Smith and Lewis, 2011) a well-known suggestion for handling paradoxical demands is to develop *organizational ambidexterity* (Raisch et al., 2009; O'Reilly and Tushman, 2008, Gibson and Birkinshaw, 2004). The concept refers to an organizational structure that synchronically masters adaptable fluidity and efficient stability by designing organizational subunits that are either efficient *or* innovative. Consequently, some subsystems are held stable while others are fully flexible. An advancement of structural ambidexterity, *contextual ambidexterity*, focuses in addition on the individual members of organizations. Contextual ambidexterity refers to an organizational context that enables the organizational members to make diligent judgments when faced with paradoxical demands. Organizational mem-

bers handle paradoxes successfully if the organization's behavior is perceived as legitimate. There is no single pathway to contextual ambidexterity but there are some beneficial factors that were identified in empirical studies (Birkinshaw and Gibson, 2004; O'Reilly III and Tushman, 2011). For example, the consistent application of the same levers (e.g. training or participative strategic planning), organizational empowerment, and role model leadership help creating a *supportive context*. Our in-depth case study will closely analyze the context in which Puma employees are handling paradoxical stakeholder demands.

Schreyögg and Sydow (2010) expressed a number of concerns regarding the workability of the contextual ambidexterity concept, in particular the fact that the concept imposes significant responsibilities on the individual. Schreyögg and Sydow do not find support in organization theory for the assumption that the organizational context design can be sufficiently supportive to allow individuals to behave in a way that contradicts to given organizational rules and incentives. They also doubt that a climate of trust, stretch, discipline, and support as such can induce a highly problem-specific behavior (cf. Schreyögg and Sydow, 2010: 1257). Given these pitfalls of the ambidexterity concept, Schreyögg and Sydow (2010) developed an alternative approach that complements the ambidexterity concept. They suggest that corporations should aim for a concurrent *balancing of contradictory demands* within a single organizational unit. They view the contradictory functions of fluidity and efficient replication as countervailing processes that organizations and their subunits have to balance. More specifically, *balancing* means on the one hand to constantly reflect on all procedures that stabilize the organization. On the other hand, it refers to developing organizational antenna functions that react sensibly to potential changes in the environment (cf. Schreyögg and Sydow, 2010: 1258 ff.).

RESEARCH METHODOLOGY FOR STUDYING CORPORATE RESPONSE STRATEGIES

Based on the theoretical insights from the first part of this paper, we design our empirical research around the main functional subunits of an organization and select issues that allow us to track the organization's learning over time. We will identify the legitimation strategies at play and analyze how the corporation under review adjusted organizational structures and procedures. Theory building on legitimacy strategies and their organizational implications in complex environments is not far developed yet. We therefore follow an explorative approach in order to formulate propositions and base our arguments on insights from a longitudinal case study that is based on a rich data set from a variety of sources. Under these circumstances the case study approach has been proven suitable (see Eisenhardt, 1989; Siggelkow, 2007; Yin, 1994).

We first explain our research methodology, including case selection (2.1), operationalization of the theoretical core concepts (2.2), data gathering (2.3) and data analysis (2.4). We then outline our research results in chapter 3. Our empirical analysis rests upon an in-depth case study of Puma, the German sportswear manufacturer. In the study, we explore how Puma is managing corporate legitimacy over time. Our qualitative study refers to interview data from 2003 and 2011.

Case Selection

For our empirical analysis of corporate response strategies, we have chosen a company that is particularly exposed to conflicting stakeholder expectations and is apparently able to successfully manage these demands. Puma has a reputable (and therefore vulnerable) brand image in the trend-driven consumer goods industry. Moreover, the company is operating in an industry that is highly sensitive to reports on poor social and environmental standards. Based on a his-

tory of corporate scandals in the industry since the early 1990s, many sportswear manufacturers launched Codes of Conducts and Corporate Social Responsibility (CSR) initiatives (Kolk and van Tulder, 2001). Yet, the companies' investments in the CSR context need to be explained to investors and consumers whose main interests are typically focused on short-term profitability, product quality, brand coolness, and low retail prizes respectively. This interest in cheaper products and higher share value are potentially in conflict with the interests of workers and NGOs targeting the organization. Puma has won numerous CSR awards and since December 2010, Puma is also the industry leader of the Dow Jones Sustainability Index. In addition, the company is a member of the Global Compact and the Fair Labor Association and it is participating in a number of other industry and issue specific initiatives (e.g. the Asian Floor Wage Campaign). These memberships and awards suggest that Puma has over a long stretch of time successfully managed corporate legitimacy and it is therefore likely that our study focuses on a "good practice example" from which other companies could learn.

This assumption is further supported by data from a Reputational Risk database (RepRisk), a database that pools news outlets from independent third parties (print media, NGO websites, blogs etc.) which report on social and environmental issues at companies. The RepRisk index (RRI) is calculated based on the influence of information sources, the frequency and timing of the information, as well as the content, including the severity (harshness) and novelty (newness) of the issues addressed (see reprisk.com). We argue that this RepRisk index presents a *proxy for corporate legitimacy* and in general, the lower the index - it ranges from zero (lowest) to 100 (highest) – the more apt are probably the companies' response strategies to heterogeneous stakeholder expectations (because no further negative news indirectly suggests that the issue was resolved). The index starts tracking data in 2006, so unfortunately we cannot track Puma's RepRisk index back to 2003. However, Puma's average risk index lies in the spectrum that corresponds to a medium risk exposure (25-50). This average score, while not

particularly low in general terms (probably due to the close monitoring of specialized watchdog organizations), is typical for companies in the sporting goods industry (Nike, Adidas etc.). What is remarkable for Puma, however, is that the company always managed to return to average RRI scores after peaks within short time periods. For example, in August 2011 the RRI for Puma was 55; in September 2011 it was at 46, in October 2011 it was already back down at 33. This is an indication that the company dealt appropriately with emerging issues (in this case with the allegation from Greenpeace that its fabrics contain toxics¹); negative reporting petered out quickly, and scores normalized.² Thus, companies that successfully manage legitimacy are not necessarily without crisis but if a crisis hits, they respond to it in an adequate way and are able to repair legitimacy in a timely manner.

This interpretation of the RepRisk data is supported by an in-depth study of Puma's critical stakeholder environment (Pflitsch 2009). The study is based on interviews of the participants at Puma's annual stakeholder meeting, most of them critical NGOs (Christliche Initiative Romero, Greenpeace, Misereor, Oxfam etc). Despite of the critical focus of these NGOs, they confirm in the interviews that the annual meetings and the regular interactions with company representatives had established a good working relationship (Pflitsch, 2009).

Our study follows the tradition of interpretative longitudinal case studies that focus on single exceptional cases (Hargadon and Douglas, 2001; Harreld et al., 2007; Etzion and Ferraro, 2010). The authors had unique access to the activities of the organization and its senior man-

¹ See report at <http://www.greenpeace.org/international/en/publications/reports/Dirty-Laundry-2/>

² For the purpose of our study, Reprisk AG in Zurich granted us free access to the RepRisk database. We are grateful for their support

agement team. During a research stay at Puma in 2003, one of the authors established trust with the team in charge of sustainability, and in the following years, all authors continuously followed Puma's development in various roles. The aim of our empirical study is to identify independent variables that are relevant for managing legitimacy. We will, as a result of our explorative study, generate testable propositions that prepare future large-n studies on corporate response strategies in complex environments.

Operationalizing the Core Concepts

In this section we will define and operationalize the theoretical core concepts for our empirical work (legitimacy strategies, balancing of fluid and rigid structures, contextual ambidexterity). These core concepts provide the foundation for the analysis of our empirical data (the coding process).

Operationalizing legitimacy strategies: The legitimacy strategies outlined above apply different means to retain or regain legitimacy. Argumentation strategies require dialogue with stakeholders to find common ground and reach consensus or agree on compromise solutions. In an (ideal) argumentative process, the parties aim to *explain* their positions and to convince their opponents with the help of good reasons. Ideally, power is largely absent from the interaction except for the power of the better argument which defines the outcome of the dialogue (Habermas 1983/2001: 89). Manipulation strategies aim at *influencing* the corporate environments in favor of the corporate strategy, often with the help of PR and marketing tools. The aim is to *persuade* (rather than convince) the other party of the corporate position. Adaptation strategies are probably the most difficult to detect as adaptation is often a non-communicated, incremental process. Therefore, to identify an adaptation strategy typically requires comparing the environmental demands and corporate actions. Adaptation could, however, also be the result of a stakeholder dialogue (because the corporation acknowledges the rightness of stake-

holder demands) or the proactive response to an emerging trend (which the company correctly anticipated). If a company commits to a standard (e.g. Rainforest Alliance), this could either be an adaptation strategy or an argumentation strategy, depending on how well established the standard already is. If the standard still needs to be developed, we argue that this is an argumentation strategy; yet if already many companies participate in a well-established standard, then we argue that participation is an adaptation strategy.

Operationalizing the Organizational Context: To enable the activation of multiple legitimacy strategies at the same time, the literature suggests that the organization needs to establish a specific organizational architecture that consists of rigid *and* fluid organizational structures. Rigid structural elements typically promote the exploitation of capacities while fluid structures are better suited to explore new capabilities (Schreyögg and Sydow, 2010). Under *fluid* structures, we understand organizational elements that can be adjusted easily to emerging environmental contingencies. *Rigid* organizational elements, in contrast, are routines and procedures that foster efficiencies. The act of *balancing* fluid and rigid organizational structures requires individual capacities and design elements that facilitate reflection and discussion over the usefulness of both, fluid and rigid structures. The question that the organization needs to answer in the balancing process is whether the organizational design is still adequate given the environmental requirements and to decide consciously whether or not to adjust. In our empirical study we will therefore *focus on these reflective mechanisms that were installed for balancing*. Reflective elements can have the form of regular inter-departmental meetings, platforms for internal discussions, advisory boards, or other consultative sessions with external and internal experts and stakeholders. BALANCING thus refers to any reflections that critically examine the fit between the external demands and the ability of internal structures to respond to external demands in an adequate manner.

To further assess whether the organizational setting is prepared to handle legitimacy challenges, we analyze whether or not the organization has adopted an ambidextrous organizational design. Based on relevant literature in the field, O'Reilly III and Tushman (2011: 9) argue that five conditions are critical for creating contextual ambidexterity across the exploitative and explorative units. We adopt these five key design elements and adjust them slightly for our context of managing legitimacy. We also operationalize each design element to guide the coding process.

- (1) STRATEGIC INTENT to build an organization that is able to manage heterogeneous stakeholder demands
- (2) VISION and VALUES to create a strong organizational identity that provides guidance in paradoxical situations
- (3) COMMITTED LEADERSHIP TEAM that is fully supporting the strategic intent and the corporate vision and whose incentives reward this commitment
- (4) SEPARATE BUT ALIGNED ORGANIZATIONAL ARCHITECTURE that enables both, exploitation and exploration but is aligned at the strategic level
- (5) REMEDIAL SENIOR MANAGERS that are able to resolve interdepartmental tensions that result from paradoxical stakeholder demands

Legitimation Strategies				
ADAPTATION		MANIPULATION		ARGUMENTATION
Organizational Setting <i>(ambidextrous features to enable the activation of all three legitimation strategies)</i>				
STRATEGIC INTENT	VISION & VALUES	COMMITTED LEADERSHIP TEAM	SEPARATE BUT ALIGNED ORGANIZA- TIONAL ARCHITEC- TURE	REMEDIAL SENIOR MANAGERS
BALANCING <i>(reflective mechanisms to continuously ensure the adequacy of the organizational setting)</i>				

Figure 1: Overview Table of Theoretical Concepts

Source: Own

Data Gathering

For studying corporate response strategies (our dependent variable), we selected three issues in the context of CSR that caused legitimacy challenges for the company (Fair Play for the Olympics Campaign; Fair Wages; Sustainable Products). In all three instances, the company's legitimacy was publicly contested and Puma has/had to manage potentially paradoxical demands from their stakeholders. Each issue triggered media attention and Puma was forced to position itself and respond to its critics. It can be expected that the situation of critical media coverage and public contestation will accentuate the organizational mechanisms that are at play when different legitimation strategies need to be coordinated.

The issue of the past, the Fair Play for the Olympics Campaign, was launched in early 2004, during the run-up for the Olympic Games in Athens. The Campaign targeted the sportswear industry for abusive labor conditions in their supply chain and it was organized in over 35 countries by a coalition of over 100 critical civil society organizations (e.g. Oxfam, Clean Clothes Campaign). Puma was attacked for excessive working hours and its non-systematic implementation of the right to freedom of association in their supplier factories. A meeting between Puma and Bulgarian unions/NGOs took place at the end of 2004. In 2005, Puma agreed to run a pilot project with the CIR (Christliche Initiative Romero) to improve working conditions in two factories in El Salvador.

The ongoing issue chosen for this study, fair wages, causes probably the most situations of conflict between textile companies and civil society organizations. NGOs demand from companies that they not only ensure the payment of the legal minimum wage for workers in their supply chain but that they support a so-called “living wage”. In many countries the legal minimum wage is not even able to cover workers’ basic needs and therefore labor rights groups expect corporations to lobby for, or pay for adequate salaries (Bhattacharjee and Merk, 2011). In the early phases of the wage discussion the idea of a living wage was rejected by most sportswear brands, arguing that they first need to ensure that all their suppliers pay at least the legal minimum (Miller and Williams, 2009). In a second phase, various stakeholders got involved in exploring ways how the actual living wage of a country/region/worker could be determined (Bhattacharjee and Merk, 2011). These discussions in which Puma participated soon reached a deadlock due to a lacking consensus over the definition and calculation methodology of a living wage (Bhattacharjee and Merk, 2011). At the 2010 Stakeholder Meeting in Banz, Puma’s CEO Jochen Zeitz proactively committed Puma to working towards fair wages. He highlighted that the implementation of fair wages will take time but that all functional units at Puma will be contributing to this goal (Meeting Minutes Banz 2010). In line

with this commitment, Puma agreed to a pilot project with the Asia Floor Wage initiative (AFW) in 2011. The AFW has developed a formula for developing fair wages (<http://www.asiafloorwage.org/>).

The current issue of conflict (proactively) responds to the growing expectations of consumers and environmental activists that corporations minimize the harmful environmental impact of the production of their products. At the Stakeholder Meeting in Banz in 2010, Puma put the issue of sustainable products on the agenda and presented several targets that concretize its commitment to the Puma Vision of becoming a sustainable brand. The targets include reducing the emissions in logistics by 25%; using 100% sustainable packaging, becoming carbon neutral, and offering 50% sustainable products by 2015. To measure progress, Puma developed its own sustainability index by which the sustainability of a product can be assessed (min of 50% sustainable materials and good S.A.F.E. rating). Currently, the company is working towards meeting these self-defined objectives while civil society organizations demand to closely monitor the process.

The three selected issues are at different points in their life-cycle: one issue from the past (Fair Play Campaign), one ongoing issue (Fair Wages) and one current issue (Sustainable Products). This threefold focus enables us to examine and compare the company's handling of paradoxical stakeholder demands at different points in time. Our data points stretch from 2003 to 2011 and we track the changes in Puma's response strategies and analyze the organizational learning process. The question at stake is whether corporations that operate in complex environments become increasingly ambidextrous and are better prepared to handle paradoxical demands.

The issues around which our study revolves were selected after consultations with experts from civil society organizations and representatives of PUMA. To study the response strate-

gies of Puma for each of these issues, we conducted 12 open-ended, semi-structured interviews with the entire senior management team of Puma, including the CEO. As suggested by contingency theorists (see chapter 1.2), we in particular focused on the department heads (Sustainability (S.A.F.E.), Investor Relations, International Marketing, Sourcing, Design, PR and Communication, Human Resources, and Strategy) because typically each department responds to a specific environment which consists of a specific group of stakeholders. The department for sustainability (Puma S.A.F.E.) deals with civil society organizations; Investor Relations deals with investors; Marketing deals with consumers, Sourcing deals with the producing factories; PR deals with Media; Human Resources deals with employees. For our study, we were interested in identifying the specific point of view of each department on each issue, the coordination and conflict resolution mechanisms between the departments, and the external communication with the stakeholders. Therefore, all respondents were asked to describe (1) their departmental position on the issue, (2) their role in the discussions about how to deal with the issue, (3) the organizational structures and procedures that were relevant for coordinating the response strategies and (4) their communication to their specific group of stakeholders.

The respondents were reminded prior to the interview to respond to our questions as representatives of their specific department and to clearly indicate when they want to express personal views that do not overlap with the departmental position. All interview partners received a brief introduction to our study and they were then asked to describe the departmental proceedings around the pre-selected events. Since the interviewees were asked to comment on the same events we were able to capture different perspectives and expose conflicting departmental objectives. All but two interviews were conducted in person at Puma's headquarters in Herzogenaurach, Germany. Two interviews were conducted by telephone. All interviews were audio recorded and the close to literal transcriptions (almost 100 pages, single-spaced)

were shared with the respondents for approval. The approved documents (the interview partners only made minor changes to correct facts or figures) present the basis for our data analysis procedure. We also analyzed meeting minutes (e.g. the meeting minutes of the stakeholder meetings in Banz) and strategic documents to triangulate our interview data.

Data Analysis

Our data analysis followed a two-step coding procedure. We used our theoretical insights to identify theoretical categories (see chapter 1.3). These categories included the three legitimacy strategies (*adaptation, manipulation, argumentation*) and, for the organizational implementation of managing legitimacy, we focused on the *balancing mechanisms of rigid and fluid organizational structures, and the five dimension of an ambidextrous organizational setting*.

In a first step, one of the authors coded the document to check for any ambiguities in the codes and further improve their clarity. The codes were assigned to meaningful text segments (sometimes at the sentence-level, sometimes question and answer). To increase the internal validity of our study, we employed an independent researcher with demonstrated coding experience to re-code the interview transcripts. We shared the first part of this paper with the independent researcher to familiarize him with our theoretical concepts. The independent researcher was then asked to read through the entire interview transcript document and elicit the most relevant interview statements. In this step, all repetitive statements and descriptions that were beyond the focus of our work were removed and the amount of data was consolidated to a more manageable size (from approx. 100 to 20 pages). In a second step, the independent researcher was asked to assign our 9 codes (ADAPTATION; MANIPULATION; ARGUMENTATION; STRATEGIC INTENT; VISION & VALUE; COMMITTED LEADERSHIP TEAM; SEPARATE BUT ALIGNED ORGANIZATIONAL ARCHITECTURE; REMEDI-

AL SENIOR MANAGER; BALANCING) to the remaining interview statements. Text elements that could not be assigned were put aside for further analysis. Through this process, we identified elements that are possibly important for successfully managing legitimacy. The coding results of the independent researcher were discussed with the author who did the original coding and the agreement between the two researchers, and hence inter-rater reliability, was high.

In 2003, we already collected interview data at Puma. For our study of the organizational implementation of Puma's CSR program, we interviewed senior managers to assess their level of awareness for potential areas of conflict within the organization. The study was less systematic than the recent study yet the interview notes still serve as a reference point for tracking changes in legitimacy strategies over time (Baumann 2003).

MANAGING CORPORATE LEGITIMACY AT PUMA

We will first describe how Puma's repertoire of legitimacy strategies evolved from 2003 – 2011. We will use the data from 2003 and the data that we gathered around the 3 pre-selected crisis points to identify the type of legitimization strategy. Our analysis traces the events in a chronological order. We will then zoom into the organization to focus in greater detail on the evolution of organizational structures and procedures. This meso-level assessment highlights how Puma has over time adapted to these legitimacy challenges on an organizational level. The coding sheet in the appendix (Appendix 1) includes several exemplary quotes for each code.

Learning to Respond to Paradoxical Stakeholder Demands

In 2003, Puma was for the very first time the target of a major campaign by NGOs. The Christliche Initiative Romero in collaboration with the Clean Clothes Campaign accused Puma for tolerating poor working conditions at one of Puma's supplier factories in Mexico. The case at the Matamoros factory hit Puma unprepared and initially, they issued a number of press statements in an effort to clarify the facts and pointing to their system of regular social compliance audits. In these statements, Puma did not agree with the accusations and they tried to convince the critical audience of a different reality (MANIPULATION). As Puma realized that their measures did not satisfy the NGOs and the media pressure continued rising, they changed strategy and started engaging in discussions with individual critics (ARGUMENTATION). The company eventually arranged a meeting with all stakeholders in Banz, a former monastery in Germany. The "Talks at Banz" were held in late 2003 and the exchange at this meeting exposed major differences between the position of the company and the NGOs. Although Puma had in principle committed to an argumentation strategy, a dialogue culture first had to be established (Minutes Banz 2003). Despite of the rather rough exchange with their critics, Puma decided to institutionalize the Banz meetings and the meetings were since held annually. The dialogue platform was instrumental for strengthening relationships with various stakeholder groups, for monitoring societal trends, and for explaining the company's position to its critics. It also served as a regular organizational check-up to ensure that the organizational setting was able to adequately respond to the various stakeholder requests (BALANCING). The head of the S.A.F.E. department points out that this major first campaign triggered learnings for Puma –

“After Matamoros, we initiated the first Talks at Banz. ... through these talks, we identified the value-added of those campaigns, ... to approach the NGOs and engage them in dialogue. “ (Head S.A.F.E Department)

The PR department argues that the dialogue with stakeholders has been critical for Puma’s organizational development. It helped the company to formulate and implement Puma’s sustainability strategy (BALANCING) –

“The dialogue with critical stakeholders definitely changed the whole attitude... It helped them (the SAFE department) to formulate their strategy and implement it appropriately.” (PR Department)

Shortly after the first stakeholder meeting in Banz, Puma joined the Fair Labor Association (FLA), a multi-stakeholder initiative set up to improve workers’ rights in the supply chain (www.fairlabor.org). The decision to participate in the FLA further manifests Puma’s intent to engage with all relevant stakeholders and to allow for independent third parties to assess its supply chain (AMBIDEXTERITY; STRATEGIC INTENT). Today, Puma’s entire senior management team participates in these meetings (AMBIDEXTERITY; COMMITTED LEADERSHIP TEAM). The team is committed to the open-ended dialogue process despite of the difficulties of establishing a constructive dialogue. Senior managers at Puma were also instrumental for making the organizational changes happen internally. They started adjusting performance targets for the purchasing department to smooth out potential conflicts with the S.A.F.E department (REMEDIAL SENIOR MANAGERS).

As the Fair Play of the Olympics Campaign was launched in 2004, Puma had already experienced that a pure manipulation strategy would not be successful. The head of the S.A.F.E. department pointed out that the campaign was the start of a reflection process (BALANCING):

“(The Fair Play of the Olympics Campaign) did of course trigger some actions and thoughts - perhaps not immediately though. We did not immediately change all our policies. But at least it made us think!” (Head S.A.F.E. Department)

The sourcing department confirms that the second large campaign against Puma led to a substantial assessment of Puma’s sourcing strategy:

“The 2004 Fair Play at the Olympics campaign was the proof that sourcing like it was done at the time was wrong! The campaign provided us with arguments to say ‘You see guys, as long as we don’t change, we will be confronted with these issues.’ ” (Sourcing Department)

The senior management team of Puma (AMBIDEXTERITY; COMMITED LEADERSHIP TEAM) hence decided to discuss with NGOs a plan of action and adapt to some of the demands (ADAPTATION), particularly the NGO’s request for dialogue (ARGUMENTATION). The adaptations to some of these demands initially had a patchwork character. Puma committed to a training on workers’ rights and a pilot project, but a more substantial revision of their entire supply chain followed later (Interview Sourcing Department). Thus, while Puma adapted to some of the NGO’s demands (ADAPTATION) and continuously engaged in dialogue (ARGUMENTATION), they were also hoping to win time for more substantial organizational changes. For this purpose Puma in 2004 hired a supply chain management expert from one of their competitors to set up a new sourcing structure. Thus, these first NGO campaigns against Puma forced the company to enlarge its repertoire of legitimation strategies. Until 2003, Puma could rely on its manipulative PR strategies to maintain corporate legitimacy, however, once attacked by NGOs on its labor rights issues on the supply chain, the company could no longer keep critics at bay by issuing press statements. Puma already realized after the Matamoros crisis that engaging in dialogue with its critics would be inevitable in

order to maintain its legitimacy, and hence, as the Fair Play Campaign was launched in 2004, Puma was already much quicker at switching to an argumentation strategy (ARGUMENTATION). Once involved in a dialogue, the company often had little choice but adapting to some of the NGO's demands (ADAPTATION) but they also had the chance to explain their paradoxical situation and, at least for some time, calm down upset stakeholders. The head of the S.A.F.E. department argues that today the organization is better prepared for a crisis –

“2004 was definitely also different compared to today because in 2004 the Safe department was still in the early phase of its development.” (Head S.A.F.E. Department)

The issue of fair wages was brought up first at around the time of the Fair Play Campaign. Puma could not easily adapt to the demand to pay fair wages – it would require a lot of resources to calculate and implement a fair wage (besides, the concept of a fair wage is far from being clear or consensually agreed upon) - and hence they initially refused to commit to anything but ensuring the payments of the legal minimum wages. Based on their experience from the past events, they however also committed to staying involved in the discussions over fair wages. The PR department explains how Puma dealt with the paradoxical demands from investors and critical NGOs –

“The investors, as they focus on the financials, are critical that our CSR or sustainability concepts are costing too much money and that it does not translate into direct profits. So, the company is wasting money. However, *if you convince them* [highlighted by the authors] that the consumers will prefer to buy our products because we care about sustainability aspects, you speak their language and even they understand our strategy.” (PR Department)

This description shows that particularly paradoxical demands (here from the financial community and the NGO community) triggered deep reflections on Puma's organizational setting

and its communication style (BALANCING). Puma made an effort to create common ground among different stakeholder groups by carefully selecting the appropriate language and rationale for each stakeholder group. To resolve the contradicting demands of investors and NGOs on the issue of fair wages, Puma decided to persuade the investors of the rightness of their commitments so that they would perceive the wage issue of strategic importance for the continued financial success of the company (MANIPULATION). Hence, through means of manipulation, Puma was able to create an environment that is favorable to investments in sustainability projects.

The issue of sustainable products was put on the agenda by Puma itself. The expectation that corporations look into the sustainability of their products was already emerging as a general trend but no advocacy group had specifically addressed Puma yet in this context. The company decided to proactively adapt to this trend before it fully emerges (ADAPTATION) and define targets and milestones which were presented at the annual stakeholder meeting 2011 in Banz (see Minutes Banz 2011). The statements of the CEO about this process show that the dialogue forum was also used to manipulate critical stakeholders –

“I think that part of the dialogue (at the annual stakeholder meeting in Banz) is also *to educate them a little bit* (highlighted by the authors) that the world is not just about labour issues. It is not as simple; things are interconnected. If we ultimately want a sustainable business, we have to look at several critical areas that we feel are important to define in the DNA of our company, in order to accomplish our mission, which has sustainability as its base. ... Most people don't or cannot think holistically. They are in their box and that is a problem!” (CEO)

The chronological analysis of crisis points suggests that Puma has advanced at activating various legitimacy strategies and also activates different legitimacy strategies in parallel for dif-

ferent stakeholder communities. While the company is manipulating its investor environment, they are engaging in argumentation strategies with the NGOs. Puma has, however, also learnt to combine different legitimation strategies and occasionally instrumentalizes argumentation platforms for manipulation strategies or to proactively present adaptations to emerging trends. This approach is however not without risks. In fact, it backfired in 2007 as the NGOs refused to participate in the annual stakeholder meeting in Banz due to the fact that they could not participate in the design of the meeting agenda (Pflitsch, 2009). Puma had to change the process to bring these actors back to the table.

The consequences of Puma's engagement in sustainability occasionally caused inter-departmental conflict. The commitments that Puma made at the stakeholder meetings were particularly difficult to implement for the sourcing department (see interviews). Several interview partners mentioned that inter-departmental conflicts became easier to manage as Puma formulated a clear corporate vision and mission statement that incorporated sustainability (VISION & MISSION). Puma Vision highlights four core values and the mission statement placed sustainability at the heart of the company's strategic focus. These measures provide direction for all departments and helped to harmonize interdepartmental conflict (REMEDIAL SENIOR MANAGERS; see interviews).

Still, explaining Puma's strategy to external stakeholder groups with conflicting expectations remains a constant challenge for the company. To resolve this specific challenge, Puma is currently working on developing a new reporting structure that links sustainability data directly with financial data. This way, it will be easier for the company to convince investors of the usefulness of these activities (MANIPULATION). Likewise, Puma carefully adjusts its mode of communication with consumers and suppliers in order to convey the sustainability aspects of a product (MANIPULATION). The sourcing department works in close collaboration with

its suppliers to convince them that there is a business case for sustainable products and it forms strategic partnerships with the suppliers that agree to support Puma's vision (MANIPULATION). Thus, corporate messages are adjusted depending on the stakeholder group concerned (MANIPULATION).

“Of course you have to try to speak the language of different stakeholders. You need to kind of translate the message. Some need a more technical message, the consumers a more motivational message and your shareholders need the message in yet another language. But it's ultimately the same message that you need to communicate. It's just the expression of the message that needs to be adjusted, so that the different stakeholders understand your point of view.” (CEO)

The analysis of crisis points traced the evolution of Puma's repertoire of legitimacy strategies. The longitudinal study shows that Puma learnt over time how to manage conflicting stakeholder demands –

(1) by committing to continued dialogue with its critics (growing importance of argumentation strategies)

(2) by activating different legitimization strategies in parallel (while Puma engages in argumentation strategies with civil society organizations, manipulation strategies are activated for investors, consumers, and suppliers)

(3) by developing hybrid forms of legitimacy strategies and by proactively defining the agenda (platforms designed for argumentation are also used for manipulation; adaptation occurs before issues emerge)

Organizational Adjustments for Managing Legitimacy

In this section we outline the critical organizational features that support Puma's management of legitimacy. Based on our theoretical insights, we will pay special attention to the features that create a context of ambidexterity and any reflective mechanisms that the company installed to balance counter-veiling processes.

In 2003, Puma's organizational structures and procedures around sustainability were at an infant stage (Baumann, 2003). Sustainability issues that arose were managed in an ad hoc manner, involving individual senior managers, the PR department and the S.A.F.E. department while other departments were not much involved. Thus, paradoxical stakeholder demands were handled by a few individuals in a rather isolated and non-systematic manner (Baumann, 2003). This situation changed drastically over the years. In 2003, it was for example not yet possible to interview the head of human resources, marketing and investor relations departments due to their lack of engagement and knowledge about sustainability topics (Baumann, 2003). This suggests that some departments were isolated from the turmoil in Puma's stakeholder environment and continued doing business-as-usual which can easily result in lacking alignment. In 2011, all functional heads were included in our study and our interview partners all confirmed their involvement in the handling of paradoxical stakeholder demands (see interviews). So, while some departments are still protected from handling complicated stakeholder demands, informal and formal communications on sustainability issues was reaching all departments and, as a result, alignment with corporate objectives was much greater (SEPARATE BUT ALIGNED ORGANIZATIONAL ARCHITECTURE).

Critical for this transition was certainly the introduction of the Puma Vision in 2008 through which Puma re-defined its strategic focus and explicitly added sustainability to their mission statement ("Puma aims to become the most desirable *and* sustainable sport-lifestyle compa-

ny”) (STRATEGIC INTENT). In this context, Puma also defined four core values - fair, honest, positive, creative - that should drive its business conduct. Puma Vision thus sets clear priorities and serves all employees as a compass for the decision-making and the communication with stakeholders (VISION & MISSION).

Puma also created two new senior management posts to ensure the operationalization and integration of the corporate vision in daily business processes (Head Puma Creative; Head Puma Global Strategy). It is in the responsibility of the Global Strategy department to define the operative milestones of the corporate vision (Puma Drive), improve communication to stakeholders, and to oversee the implementation process (STRATEGIC INTENT). A regular teleconference run by the Head of Global Strategy involves representatives of all departments and ensures that the implementation of Puma’s corporate vision stays on track (SEPARATE BUT ALIGNED ORGANIZATIONAL ARCHITECTURE).

To measure the compliance with Puma’s vision, incentive systems were adapted and trainings for Puma’s management team were introduced in 2009 (see Interview HRM; STRATEGIC INTENT). The performance review of managers now includes an assessment of how well the managers met their business and sustainability targets and the results are directly linked to bonus payments. (Interview HRM; COMMITTED LEADERSHIP TEAM). These measures show that Puma put in place incentives to ensure the implementation of Puma’s strategy and to guide the handling of paradoxical stakeholder demands. Instrumental in setting up these formal procedures was Puma’s CEO (STRATEGIC INTENT). He argues that defining milestones and key performance indicators is critical for the implementation of the Puma vision and for managing corporate legitimacy (SEPARATE BUT ALIGNED ORGANIZATIONAL ARCHITECTURE). Without exception, all interview partners highlighted that the leadership of the CEO in this change management process of the past years has been crucial for the

commitment of Puma's leadership team and Puma's external credibility (COMMITTED LEADERSHIP TEAM).

Despite of some formal organizational elements that were set up to better manage corporate legitimacy (e.g. incentive systems for the Puma managers), most of the internal coordination at PUMA remained informal. Informal mechanisms are easily adjustable to new environmental requirements and thus they serve dynamic fields and explorative ventures, like it is the case with sustainability issues. For example, the coordination between the sourcing and the S.A.F.E. department which is critical for the implementation of Puma's Code of Conduct was informal in 2003 (Baumann, 2003) and largely stayed informal until today (Interview S.A.F.E, Sourcing, HRM). The benefits of informal and open communication channels were highlighted by all interview partners –

“The coordination is less formal and communication is happening regularly across all functions...This (the informality of communication channels) is the beauty of Puma!”
(Sourcing Department)

The head of Global Marketing also argues that flat hierarchies are beneficial for managing corporate legitimacy –

“I think that the fact that PUMA is not so hierarchical is an advantage as it allows attacking any problems very quickly and easily.” (Head Global Marketing)

The informality of communication channels and the lack of steep hierarchies for a long time almost replaced rigid coordination structures at Puma. Today, the introduction of some formal coordination procedures became necessary yet fluid coordination processes prevail. They enable the organization to respond quickly to emerging issues and, if necessary, switch to more

appropriate legitimacy strategies in a flexible manner (SEPARATE BUT ALIGNED ORGANIZATIONAL ARCHITECTURE).

The informal mode of exchange at Puma also abets the process of balancing counter-veiling processes. All interview partners confirm that thanks to Puma's open corporate culture there are ample occasions to engage in reflexive monitoring processes (BALANCING). Interview partners even argued that the issue of potential change requirements is constantly put on the agenda and is a permanent theme in organizational discourse (see e.g. interview with Head of Marketing). Puma Vision was created to respond to the need to create an umbrella structure for its various social engagements (Puma Safe, Puma Creative, Puma Peace). In 2011, after a review of the environmental requirements, the head of Puma Safe realized that the organization needs to build up more specific knowledge on environmental issues as well as on social issues. Hence, they just recently decided to restructure the S.A.F.E. department and split it in two parts, namely Puma Humanities and Puma Environment.

Puma also installed several platforms that ensure that the corporation is continuously aware of environmental trends. The annual stakeholder meeting in Banz, the participation in multi-stakeholder initiatives (Fair Labor Association, UN Global Compact etc.), the regular exchange with civil society organizations, as well as a newly established advisory council that is composed of external experts provide the organization with the information that it needs for deciding whether or not the current organizational architecture is still able to manage paradoxical requirements (BALANCING).

To conclude, the interview data allowed us to trace the organizational development of Puma from 2003 to 2011 and the data shows that Puma's organizational setting has become more ambidextrous over time. Features that are critical for an ambidextrous context were introduced and they continue evolving (e.g. the development of a corporate vision and mission that

includes sustainability and the strong commitment of all the functional heads to implement this mission and to resolve conflicts as they arise). The organizational architecture includes elements that are very focused on their realm yet informal communication processes facilitate coordination and alignment with the corporate mission. In addition, several mechanisms were installed to ensure that the organizational members regularly and consciously reflect on the appropriateness of the organizational design (inter-departmental meetings, advisory board, and stakeholder meeting in Banz).

Summary of Findings and Hypothesis

In this section, we summarize our findings and formulate propositions. Given Puma's numerous awards and distinctions, we started our empirical analysis with the assumption that Puma presents a data rich case of an organization that successfully manages legitimacy. Therefore, we draw the following conclusions for managing legitimacy successfully.

The explorative case study shows that Puma has over time increased its repertoire of legitimacy strategies. The Matamoros crisis started the dialogue with critical NGOs, a novel approach for Puma at the time. Through this crisis, the company learnt to also activate argumentation strategies at following crisis points. In the analyzed years, Puma was able to employ all three legitimacy strategies at various points in time and in fact even managed to employ different legitimization strategies in parallel. Figure 2 displays Puma's legitimacy strategies at various points in time (the darker the shades the more dominant the strategy) –

	Matamoros 2003	Fair Play Cam- paign 2004	Fair Wages 2004-2011	Sustainable Products 2011
Adaptation				
Manipulation				
Argumentation				

Figure 2: Evolution of Legitimacy Strategies

Source: Own

Thus, our empirical findings suggest that legitimacy strategies are not exclusive (Lamin and Zaheer, 2012; Scherer et al., 2013).

H1: Corporations that successfully manage corporate legitimacy expand their repertoire of legitimacy strategies with increasing stakeholder heterogeneity.

The *activation* of a specific legitimacy strategy is not necessarily the result of a conscious management decision or agency. We believe that legitimacy strategies can also emerge as a consequence of a specific organizational context.

The analysis of Puma's legitimation strategies over time has also highlighted the growing importance of the argumentation strategy. Increasing tensions in Puma's stakeholder environment rendered the legitimation strategies of manipulation and adaptation in many cases unsuccessful and therefore resulted in discursive approaches. This illustrates the theoretical arguments of Palazzo and Scherer (2006).

H2: Corporations that successfully manage corporate legitimacy learn over time to employ the most appropriate legitimacy strategy in a given context.

The results also indicate that the three legitimacy strategies as outlined by Suchman (1995) need to be extended to also capture hybrid forms. For example, Puma's main forum for exercising the argumentation strategy, the annual stakeholder forum, was also used for *manipulation* strategies (see above). Likewise, regular dialogue with stakeholders also served to absorb trends and opinions and it enabled Puma to react even before stakeholders could formulate demands. This way of anticipating paradoxes and *proactively adapting* to some demands that will most likely emerge in the future, has for Puma been a successful way of avoiding conflict, e.g. in the case of sustainable products.

H3: Corporations that successfully manage corporate legitimacy engage in communication with stakeholders not only to engage in argumentation but also to activate adaptation and manipulation strategies.

In terms of the organizational adjustment to complex stakeholder environments, the case study shows that Puma has over time made a number of changes to its organizational structures and procedures.

H4: Corporations that successfully manage corporate legitimacy create the organizational prerequisites that enable the activation of multiple legitimacy strategies.

To be better prepared for new legitimacy challenges and manage paradox stakeholder demands, organizational subunits as well as individual organizational members often learnt through experience with crisis situations to operate ambidextrous. In the process of creating the context for ambidexterity at Puma, leadership, open communication channels, and the introduction of various organizational reflection mechanisms were crucial. The most remarkable aspects of this development are (1) the creation of a corporate vision that gives direction for all corporate decisions, (2) the creation of several new senior management positions (Head Corporate Strategy; Head Puma Vision, as well as a new deputy for the Sourcing Department)

to structure and oversee the process of managing legitimacy, (3) the installment of SOPs (e.g. regular teleconferences) to coordinate the legitimacy strategies of different departments, (4) open, informal communication channels to respond to legitimacy challenges when they arise, (5) alignment of incentive structures (HRM management) and specialized training, and (6) the establishment of reflective mechanisms (stakeholder meetings, advisory council) in order to proactively respond to tensions in the environment and tackle issues when they emerge. These structural elements enable the organization to continuously reflect on fluid and rigid organizational elements, discuss their usefulness, and decide when to learn and adjust (Schreyögg and Sydow, 2010: 1258).

H5: Corporations that successfully manage corporate legitimacy create an ambidextrous organizational context (with a focus on leadership, open communication channels and reflective mechanisms) to facilitate balancing countervailing processes.

Limitations of the Case Study

Our data has a number of limitations. Firstly, the interviews with Puma's senior management revolved around the three pre-selected issues but not all department heads could comment on each issue. Some had changed roles within Puma; a few had just recently joined the company; others were at the time of crisis not involved in the issues. We tried to find additional interview partners that could comment on all issues but this was not always possible. Hence, our records are not complete. However, we believe that this does not affect the quality of our study. The main objective of studying crisis points was to remind the interview partners on situations that likely caused frictions with stakeholders and other departments and all interview partners were able to comment on how conflicts are typically being handled at Puma.

Secondly, the interview partners describe the response strategies of their department and the handling of conflicts on each pre-selected issues in retrospect, based on their memories of

these events. However, with the benefit of feedback about the outcome of an event, peoples' recalled judgments are typically closer to the outcome of the event than their original judgments (Hoffrage et al., 2000). This so-called *hindsight bias* might also affect the interview data of this study. After all, Puma managed to largely smooth out interdepartmental conflicts and conflicts with stakeholders. With these outcomes in mind, the instances probably appear today less challenging than they actually were at the time. For example, the head of Puma S.A.F.E. argued that the NGO campaign against Puma in 2004 was already a routine –

“The Fair Play Campaign was actually not that dramatic. At that time, we had already learned our lessons through the Matamoros case!” (Head S.A.F.E. Department)

In fact, however, the 2004 campaign led to internal reflections about Puma's business model and resulted in major changes in Puma's sourcing strategy (Interview Sourcing Department). The fact that the interview partners are currently embedded in a company context with a very strong strategic focus on sustainability (Puma Vision) probably further intensified this bias. Puma Vision was launched in 2008 and any interdepartmental conflict that occurred prior to this date is now likely to be viewed as rather mild/moderate.

Thus, given the psychological processes at play when knowing the outcome of an event, it is likely that the interviewees describe the interactions with stakeholders and other departments as overly harmonious (Hoffrage et al., 2000). Furthermore, it is possible that the interview partners, despite of the trustful relationship that we had established with them over years, responded to our questions in a company protective manner. Some largely denied any major conflicts and portrayed the negotiations over how to handle paradoxical demands as non-conflictual. For example –

“The resistance (from other departments) was minimal because the Matamoros case showed us that the dialogue is essential.” (Head S.A.F.E. Department)

We control for this potential bias by comparing our data gathered in 2011 with a study conducted in 2003 (Baumann, 2003) as well as with statements from external stakeholders (Pflitsch, 2009). Thirdly, although we carefully selected a company based on the likelihood that its operations are strongly affected by paradoxical stakeholder demands (sensitive consumer goods industry; strong brands image etc.), the stakeholder environment in which Puma operates is in fact less heterogeneous than expected. Most remarkably, the investor landscape that Puma is dealing with is, according to the head of Puma's investor relations, very appreciative of Puma's engagement in sustainability projects. This is rather surprising given the large investments that are necessary to run these projects and the short-term success focus of most investors. However, Puma's investor relations environment is dominated by PPR (over 70% of shares), a group that currently itself heavily invests in constructing a sustainability program (PPR Home³). Moreover, Puma's ex-CEO has just recently become PPR's Chief Sustainability Officer⁴ and hence Puma enjoys full support for their sustainability engagement from the holding company. Nevertheless, despite of Puma's benevolent ownership structure there are still plenty of other potential tensions in the stakeholder environment that need to be managed. Therefore, we argue that our corporation under review is still challenged to define appropriate response strategies to paradoxical stakeholder demands.

³ For more information about PPR's sustainability program see www.ppr.com/en/commitments/ppr-home-long-run

⁴ See <http://www.ppr.com/en/press/press-releases/jochen-zeitze-reinforce-his-management-team-puma-and-head-sport-lifestyle-divisi>

CONTRIBUTION TO THE LITERATURE AND FUTURE RESEARCH

The fact that corporations can lose their license to operate is a taken for granted assumption in the management literature. However, empirical studies on how corporations perceive and manage legitimacy threats in increasingly complex and dynamic environments are scarce. Our paper delivers an example of how an organization tries to navigate through the waters of contradictory stakeholder demands, spelling out some organizational preconditions of managing legitimacy in globally stretched corporations. Through our empirical case study we explored systematically whether and how a corporation that is apparently successful at managing corporate legitimacy is carefully balancing fluid and rigid organizational features by installing reflective mechanisms. As suggested by contingency theorists, we captured the perspective of each department to take account for the different environments of each organizational function. Our data shows how corporations that manage legitimacy successfully internally coordinate their response strategies to various stakeholder groups with potentially paradoxical expectations and the data also shows which organizational features facilitate/hinder this coordination process.

Our data suggests multiple avenues for future research. Our explorative study has done the groundwork for designing a large-n study. Furthermore, our longitudinal case research could contribute to the understanding of how ambidexterity evolves at organizations over time, a research gap explicitly highlighted by Raisch and coauthors (2009: 693). The research question of this study was not focused on advancing the ambidexterity paradigm but on the understanding of how legitimacy is being managed. A new round of data analysis however could possibly be used to shed light on the dynamic perspective of the ambidexterity concept.

Our data also highlights the role of communication in managing legitimacy. Corporate representatives use different kinds of language for different types of stakeholders. There is a grow-

ing body of literature on polyphony as a tool to analyze organizations as discursive spaces which are shaped by a multiplicity of voices (see Belova et al., 2008; Kornberger et al., 2006). Analyzing how corporate managers ensure the legitimacy of the organization through the lens of polyphony could link these bodies of literature in a mutually fruitful way.

REFERENCES

- Abbott, K.W. and Snidal, D. 2009. Strengthening international regulation through transnational new governance: Overcoming the orchestration deficit. *Vanderbilt Journal of International Law*, 42: 501–578.
- Baumann, D. 2003. *The role of the multinational corporation in global governance*. Master Thesis University of Konstanz.
- Bhattacharjee, A. and Merk, J. 2011. Route map to an Asia floor wage. 10 steps brands and retailers can take toward implementing a minimum living wage. Available at: www.cleanclothes.org.
- Belova, O., King, I., and Sliwa, M. 2008. Introduction: Polyphony and organization studies. Mikhail Bakhtin and beyond. *Organization Studies*, 29: 493–500.
- Birkinshaw, J. and Gibson, C. 2004. Building ambidexterity into an organization. *MIT Sloan Management Journal*, 45 (4): 46–55.
- Brown, S. L. and Eisenhardt, K. M. 1998. *Competing on the Edge: Strategy as structured chaos*. Harvard Business School Press, Boston.
- Chandler, A. D. and Mazlish, B. (Eds.) 2005. *Leviathans: Multinational corporations and the new global history*. Cambridge: Cambridge University Press.
- Child, J. and Rodrigues, S. B. 2011. How organizations engage with external complexity: A political action perspective. *Organization Studies*, 32: 803–824.
- Ciborra, C. U. 1996. The platform organization: Recombining strategies, structures, and surprises. *Organization Science*, 7: 103–118.

- Deephouse, D. L. 1996. Does isomorphism legitimate? *Academy of Management Journal*, 39: 1024–1039.
- Delmas, M. A. and Toffel, M. W. 2008. Organizational responses to environmental demands: Opening the black box. *Strategic Management Journal*, 29: 1027–1055.
- DiMaggio, P. J. and Powell, W. W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48 (2): 147–160.
- Donaldson, L. 2001. *The contingency theory of organizations*. Sage, Thousand Oaks.
- Eisenhardt, K. M. 1989. Building theories from case study research. *Academy of Management Review*, 14: 532–550.
- Flohr, A., Rieth, L., Schwindenhammer, S., and Wolf, K. D. 2010. *The role of business in global governance. Corporations as norm entrepreneurs*. New York: Palgrave.
- Etzion, D. and Ferraro, F. 2010. The role of analogy in the institutionalization of sustainability reporting. *Organization Science*, 21: 1092–1107.
- Graetz, F. and Smith, A. C. T. 2008. The role of dualities in arbitrating continuity and change in forms of organizing. *International Journal of Management Reviews*, 10: 265–280.
- Greenwood, R. and Hinings, C. R. 1996. Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21: 1022–1054.

- Greenwood, R., Raynard, M., Kodeih, F., Micoletta, E. R., and Lounsbury, M. 2011. Institutional complexity and organizational response. *Academy of Management Annals*, 5: 317–371.
- Habermas, J. 1983/2001. *Moral consciousness and communicative action*. MIT Press, Cambridge, MA.
- Hargadon, D. and Douglas, Y. 2001. When inventions meet institutions: Edison and the design of the electric light. *Administrative Science Quarterly*, 46: 476–501.
- Harreld, B. J. , O'Reilly III, C. A., and Tushman, M. L. 2007. Dynamic capabilities at IBM: Driving strategy into action. *California Management Review*, 49 (4): 21–43.
- Hoffmann, M. 2011. *Managing corporate legitimacy. A case study of Puma*. Master Thesis University of Lausanne.
- Hoffrage, U., Hertwig, R., and Gigerenzer, G. 2000. Hindsight bias: A by-product of knowledge updating? *Journal of Experimental Psychology: Learning, Memory and Cognition* 2000, 26 (3): 566–581.
- Kang, S. C. and Snell, S. A. 2009. Intellectual capital architectures and ambidextrous learning: A framework for Human Resource Management. *Journal of Management Studies*, 46: 65–92.
- Kaul, I., Conceição, P., Le Goulven, K., and Mendoza, R. U. (Eds.) 2003. *Providing global public goods*. Oxford: Oxford University Press.
- Kobrin, S. J. 2001. Sovereignty@bay: Globalization, multinational enterprise, and the international political system. In Rugman, A. M. and Brewer, T. L. (Eds). *The Oxford Handbook of International Business*. New York: Oxford University Press, 181–205.

- Kolk, A. and van Tulder, R. 2001. Multinationality and corporate ethics: Codes of conduct in the sporting goods industry. *Journal of International Business Studies*, 32: 267–283.
- Kornberger, M., Clegg, S. R., and Carter, C. 2006. Rethinking polyphonic organization: Managing as discursive practice. *Scandinavian Journal of Management*, 22: 3–30.
- Lamin A. and Zaheer, S. 2012. Wall street vs. main street: Firm strategies for defending legitimacy and their impact on different stakeholders. *Organization Science*, 23: 47–66.
- Levy, D. L. 2005. Offshoring in the new global political economy. *Journal of Management Studies*, 42: 685–693.
- Locke, R. 2002. The promise and perils of globalization. The case of Nike. *MIT Working Paper* IPC 02-007.
- March, J. G. 1991. Exploration and exploitation in organizational learning. *Organizational Science*, 2: 71–87.
- Matten, D. and Crane A. 2005. Corporate citizenship: Toward an extended theoretical conceptualization. *Academy of Management Review*, 30: 166–179.
- Miller, D., and P. Williams 2009. What price a living wage? Implementation issues in the quest for decent wages in the global apparel sector. *Global Social Policy*, 9: 99–125.
- Oliver, C. 1996. Strategic responses to institutional processes. *Academy of Management Review*, 13: 163–186.
- O'Reilly III, C. A. and Tushman, M. L. 2011. Organizational ambidexterity in action: How managers explore and exploit. *California Management Review*, 53 (4): 5–22.

- Pache, A.-C. and Santos, F. 2010. When worlds collide. The internal dynamics of organizational responses to conflicting institutional demands. *Academy of Management Review*, 35: 455–476.
- Palazzo, G. and Scherer, A. G. 2006. Corporate legitimacy as deliberation: A communicative framework. *Journal of Business Ethics*, 66: 71–88.
- Pflitsch, G. 2009. *Möglichkeiten und Grenzen von Stakeholderdialogen im Bereich Corporate Social Responsibility untersucht am Beispiel der "Banzer Gespräche" der PUMA AG*. MA Thesis, University of Münster.
- Raisch, S., Birkinshaw, J., Probst, G. and Tushman, M. L. 2009. Organizational ambidexterity: Balancing exploitation and exploration for sustained performance. *Organization Science*, 20: 685–695.
- Sanchez, R and Mahoney, J. T. 1996. Modularity, flexibility, and knowledge management in product and organization design. *Strategic Management Journal*, 17: 63–76.
- Scherer, A.G. and Palazzo, G. 2008. Globalization and corporate social responsibility. In A. Crane, A. McWilliams, D. Matten, J. Moon and D. Siegel (Eds.), *The Oxford handbook of corporate social responsibility*. Oxford: Oxford University Press: 413–431.
- Scherer, A. G. and Palazzo, G. 2011. The new political role of business in a globalized world – A review of a new perspective on CSR and its implications for the firm, governance, and democracy. *Journal of Management Studies*, 48: 899–931.
- Scherer, A.G., Palazzo, G., and Seidl, D. 2013. Managing legitimacy in complex and heterogeneous environments: Sustainable development in a globalized world. *Journal of Management Studies*, 50 (2): forthcoming.

- Schreyögg, G. and Sydow, J. 2010. Organizing for fluidity? Dilemmas of new organizational forms. *Organization Science*, 21: 1251–1262.
- Siggelkow, N. 2007. Persuasion with case studies. *Academy of Management Journal*, 50: 20–24.
- Siggelkow, N. and Rivkin, J. W. 2005. Speed and search: Designing organizations for turbulence and complexity. *Organization Science*, 16: 101–122.
- Smith, W. K. and Lewis, M. W. 2011. Toward a theory of paradox: A dynamic model of organizing. *Academy of Management Review*, 36, 381–403.
- Starkey, K., Barnatt, C., and Tempest, S. 2000. Beyond networks and hierarchies: Latent organizations in the U.K. television industry. *Organization Science*, 11: 299–305.
- Suchman 1995. Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20: 571–610.
- Thompson, J. D. 1967. *Organizations in action*. Mc Graw-Hill Company, New York.
- Van Maanen, J. and Barley, S. 1984. Occupational communities: Culture and control in organizations. In Staw, B. M. and Cummings, L. L. (Eds.). *Research in Organizational Behavior*. JAI Press: Greenwich, CT: 287–365.
- Vogel, D. 2007. Private global business regulation. *Annual Review of Political Science*, 11: 261–282.
- Yin, R. K. 1994. *Case study research-design and methods*. 2nd ed. Sage, Thousand Oaks, CA.
- Zadek, S. 2004. The path to corporate responsibility. *Harvard Business Review*, 82 (December): 125–132.

Appendix 1: Coding Sheet

CODE	EXEMPLARY QUOTES
ADAPTATION	<ul style="list-style-type: none"> As I said in the beginning there is also a benefit from a marketing perspective. People are now asking for and buying specifically sustainable products. (Adaptation to consumer demands). (International Marketing Department) Today is the right point in time and it would have probably also been the right point in time 10 years ago, but as you know the whole macro-environment was different then. So there were very few companies that would have had that vision 10 years ago. Today, every single company tries to incorporate sustainability aspects in their strategy. (Adaptation to societal trends), (Global Strategy Department) You see guys, as long as we don't change, we will be confronted with these issues. (Adaptation to NGOs' critique), (Global Sourcing Department) Q (Question): Do you see other competitors moving into the same direction? A (Answer): Yes, they have to. This discussion has now been started and there's no way that our competitors say "No we don't do this!" Because such a message would spread around and no one wants to be in the negative news. I think that it will be a joint effort sooner or later. (Adaptation to Competitors' activities), (Global Sourcing Department)
MANIPULATION	<ul style="list-style-type: none"> The investors, as they focus on the financials, are critical that our CSR or sustainability concepts are costing too much money and that it does not translate into direct profits. So, the company is wasting money. However, if you convince them that the consumers will prefer to buy our products because we care about sustainability aspects, you speak their language and even they understand our strategy. (Manipulation of investor community), (Corporate Communications Department) I think that part of the dialogue is also to educate them a little bit that the world is not just about labour issues. (Manipulation of stakeholders at stakeholder meeting), (CEO and Chairman) Of course, now and then they need a push because for some of them this is something completely new. It's something they have never been asked to do. Still, it is amazing what we found out about what some suppliers are already doing without having been pushed! (Manipulation of suppliers), (Global Sourcing Department)

	<p>ment)</p> <ul style="list-style-type: none"> • I think that there is a multitude of tactics that we take in terms of communicating our vision to our consumers. Obviously, we made some major press announcement last year about the 5- year goals in terms of reducing our emissions and also the unveiling of the Clever Little Bag. We launched a website which is dedicated to the Clever Little Bag which talks more in depth about our overall sustainability plans. And this is a much more consumer-oriented website compared to the PUMAVision site. We also created a Facebook site, which takes advantage of our 3 millions fans on Facebook. On this site we can also talk about the things that we are trying to do in terms of sustainability both in the environmental and the social areas. (Manipulation of consumers), (International Marketing Department) • Yet I think that raising awareness for sustainability requires an education of the customer without talking loudly about PUMA's sustainability. (Manipulation of consumers), (Design Apparel Department) • In other words, there was a moment in the sportswear industry where there was a lot of criticism being made by NGOs about workforce practices. And I think that PUMA had a point with PUMASafe specifically not to only respond to this criticism, but to become proactive and in general deal with issues before the issues arise. (Manipulation of NGO community), (Puma Vision Department)
ARGUMENTATION	<ul style="list-style-type: none"> • So, we asked for feedback and the feedback was really positive. They really liked it, a lot of them were already vegetarians, but still there was a huge approval. Just getting them involved by asking for their opinion was a good way to start the conversation about sustainability issues. (Dialogue with employees), (Corporate Communications Department) • I think that you need to have dialogue in order to understand what the critical issues are. If you don't engage with your critics, you will never find out what their point of view is (Dialogue with critics), (CEO and Chairman) • Q: So, are you planning to organize a dialogue over this? A: Well we haven't planned this yet, but it is certainly something to consider. On the one hand you always speak to the financial community and on the other hand you always speak to the sustainability community and you are always sitting between two chairs. So, ideally, you provide a forum. (Dialogue to bridge the communication gap between financial community and sustainability community), (Global Strategy Department)

	<ul style="list-style-type: none"> • Together we identified some key suppliers out of our portfolio. And we started talking to them now to figure out how we can approach fair wages. But this is something new and unfortunately there is no easy way in just saying “let’s add 10% and the 10% directly benefits the worker and everything is fine.” (Dialogue with suppliers), (Global Sourcing Department) • To get to your point about listening to consumer feedback, we have plans to launch a more dynamic and interactive content in order to integrate the opinion of consumers. The goal is to start a dialogue with them. (Dialogue with consumers), (International Marketing Department) • Well I think this is about transparency. On a regular basis, besides the Talks at Banz, we have meetings with our stakeholders. These are very open forums, which are not covered by the press and where everybody can discuss openly whatever issues they may have. If we would not try to resolve stakeholder conflicts, I am not sure what will happen. So, we have to listen to our stakeholders and we have to get feedback from them in an honest and open environment. We also engage them so that they can start understanding each other and that they can see that their agendas might be sometimes conflicting (Dialogue with all stakeholders), (Puma Vision Department)
STRATEGIC INTENT	<ul style="list-style-type: none"> • Also our membership at the Fair Labor Association was one relatively direct outcome of the Banz talks. After one of the Banz meetings, in an informal process, we thought about what could be done better and then one element was that we need the external verification of our efforts to install Safe. So we decided to join the FLA (Strategic Intent to build an organization that is able to manage heterogeneous stakeholder demands), (Puma Vision Department) • To credibly establish a new “Living or Fair Wage” label, a multi-stakeholder initiative would be needed as well as a campaign behind it to educate consumers about what it is. (International Marketing Department) • Therefore, we need to be sure that all those different stakeholders get served and that we respond to their particular needs. (Puma Vision Department) • This is a very complex process that we have to go through to try in some way to not be diverted from an understanding of a holistic, interconnected way of how we have to fulfil our responsibility for each of these groups and how we have to work to try to resolve the criticisms from each stakeholder group. (Puma Vision Department)

	<ul style="list-style-type: none"> • We are becoming increasingly aware of all these different stakeholder groups and our big challenge is to define a structure or a philosophy whereby we can respond to these groups and not compromise one against the other. (Puma Vision Department) • To summarize our conversation on PUMA's stakeholder relationship management - I think that there are three particular characteristics that are driving all of us at Puma. I think the first one is a holistic strategy for which an implementation program was drafted. In other words, the PUMAVision comes up with a long term structured way of how to deal with all the different interest groups. The second element is our proactive approach that is supported by a programmed attitude. (Puma Vision Department)
VISION & VALUES	<ul style="list-style-type: none"> • I think having values is better than being more strategical or tactical. (International Marketing Department) • The journalists also know that sustainability is dear to PUMA. So there is no need to push that anymore but it's a given that we are just doing it. It's part of our DNA and it's also part of our company mission to become the most desirable and sustainable sportlifestyle company in the world. (Corporate Communications Department) • I think that first of all everything starts with a vision and a mission. If you don't know what your actual vision is and if you did not derive a clear mission from your vision for the business that you are in charge of, it's difficult to determine what you should do. So, it all starts with a vision and a mission. (CEO and Chairman) • So, I think everybody knows about the vision but not everyone is involved in its process of creation. (CEO and Chairman)
COMMITTED LEADERSHIP TEAM	<ul style="list-style-type: none"> • But, in general, PUMA is pretty strict in this respect. If you haven't met the targets, you haven't met the targets – full stop! And you don't get a bonus. (Human Resources) • No, it's actually a good portion of the salary. The good thing is that, when we introduced this criterion last year consistently across the world, I actually did not feel much resistance on the GM (General Management) level. Most people asked "well what's the target?" (Human Resources) • But it's quite important to keep working driving the sustainability targets through the entire organization. We are in the middle of a change management process. So, penetration is key. We have to use any chance possible to communicate to our people and to tell them the story and explain what stands behind it. (Human Re-

	<p>sources)</p> <ul style="list-style-type: none"> • It was an interesting discussion, because it's about how to achieve penetration. It is not just about sending out e-mails but you have to use all kinds of methods. Sustainability should become an essential part of leadership trainings, and it should as well be integrated further in the on-boarding training; it should be a part of all communications and it should be part of team meetings in order to regularly check if we are indeed achieving our sustainability targets. (Human Resources) • Exactly. It's a broader system and this is the only way we can make people accountable for something and make sure they drive proactively. When it comes to sourcing, you have to be a bit dictatorial, I must say. Otherwise nothing is going to happen! (Global Strategy Department) • You cannot always listen to that. Sometimes, especially in my position and in Jochen's position, you have to take a few dictatorial decisions to make things happen and I just gave you one of those examples where we did that! (Global Strategy Department) • There is no ultimate recipe but I believe that it really starts with a strong vision and very strong CEO leadership. That's key! If that is not happening, forget about it! Someone will perhaps start a fire somewhere but no one will care about it. So, strong leadership from the CEO and then cascading down further into the different parts of the organization is absolutely key to drive such a vision top-down. (Global Strategy Department) • Q: Are there very strict guidelines for your team on how to handle these things? A: Well the goal is clear! The last three days, we had a strategy meeting with the board and I think the goals have again been clearly pointed out by Jochen Zeitz, which is of course very challenging for us, but nevertheless I think that we have to start somewhere. (Global Sourcing Department) • First of all, the internal staff. You cannot distribute a message to someone externally, if the message has not yet been fully incorporated in our own DNA. There is still some work to do. (Puma S.A.F.E. Department) • Q: What triggered the change of pace that took place three and a half years ago? A: From what I understand, this was the initiative of the CEO at the time, Mr. Jochen Zeitz. I think our engagement can to a large extent be attributed to a very personal passion of our CEO and he became increasingly aware of the need to consider these things.
--	---

	(Puma Vision Department)
SEPARATE BUT ALIGNED ORGAN- IZATIONAL AR- CHITECTURE	<ul style="list-style-type: none"> • The board wanted the group to start thinking about sustainability in a broader way, not only in the supply chain way. And therefore the product divisions were involved as well as other departments like the logistics department or the retail department. So Franz collected all the information from the different functional heads and decision makers within PUMA. (Puma S.A.F.E. Department) • Sustainability targets in the bonus structure of senior decision makers, like having all parts of the organization reporting on sustainability to one central person high up in the hierarchy, or increasing the sustainability communication to the consumer. (Puma S.A.F.E. Department) • So every three months there is, what we call, the 360 sustainability conference with all the departments to see the progress. And, once a month, there is an executive sustainability call with obviously our CEO, our CMO, our CFO, head of retail, head of strategic planning, director of PUMAVision and the head of PUMA.Safe, where we talk about top-line and long-term projects on a monthly basis. (International Marketing Department) • So, the implications of our sustainability vision must be clearly understood by the design department, the material people but also by other people in the company. We are talking here about the whole picture, beyond making new products. (Puma S.A.F.E. Department) • One thing, for example, is that we will split PUMA.Safe into PUMA.Safe Humanity and PUMA.Safe Ecology. We will have two legs focusing on different topics because we figured out that we can't do everything at once. This is also in line with PPR's approach. (Puma S.A.F.E. Department) • We have grown into a team of 15 people, but I cannot expect that everybody has all the necessary knowledge in all areas. So it is better to have one leg concentrating on A and another leg concentrating on B. Yet, there will be frequent exchanges between these groups to ensure the balance between those two areas. (Puma S.A.F.E. Department) • I'd like to call it responsibility for our environment, we split it into different areas: we have the product area, retail area, marketing area and the logistics area. In my function, I am only talking about the product area. PUMA developed a so-called S-Index that informs and educates our designers as well as our development people about materials and yarns that help PUMA to become more sustainable. (Design Apparel Department)

	<ul style="list-style-type: none"> • PUMA has done some restructuring and Jochen Zeitz is now the Chief Sustainability Officer on the group level of PPR and Franz Koch is taking over the CEO role. PUMAVision will however continue reporting to Jochen Zeitz, because he will be the chief sustainability officer across all the brands. (Puma Vision Department)
REMEDIAL SEN- IOR MANAGERS	<ul style="list-style-type: none"> • Yes, we certainly had problems in the past. We still have a few problems. But I would say that sourcing and Safe are now on a similar track. (Puma S.A.F.E. Department) • This process is always a give and take. But I would say that these are discussions, not fights because it is not that one department has an objective and the other department has another. (Design Apparel Department)
BALANCING	<ul style="list-style-type: none"> • We have still a long way to go to also get organized internally. I think that the questions that you raised are valid and from a process perspective not yet totally nailed down for all the departments. We have to be honest; many things need to be better organized internally. (Investor Relations Department) • I have made the experience that there is always a balance that you have to take into account because at the beginning you are trying to push the messages by explaining over and over again what PUMAVision is about. After a while, people get a bit tired and they say “is now everybody turning green?” There was this kind of criticism and we realized that we need to communicate differently to get employees engaged. (Corporate Communications Department) • But the challenge is to find a balance between being profitable and sustainable. (Human Resources) • But since you mention challenges - one of the challenges that we are constantly facing is how to manage the dialogue with both the financial world and the CSR world. How can both worlds come together at some point in time. (Global Strategy Department) • A sourcing decision always depends on a combination of factors: quality, lead time, flexibility as well as social responsibility. CSR is a fully established criterion these days, which is good. And that only happened, I think, in the last five to six years. (Global Sourcing Department) • I think both sides – sourcing and Safe – made suggestions for improvements and then finally all came together. So the very close communication between us and the sourcing team was essential in

	<p>this respect. (Puma S.A.F.E. Department)</p> <ul style="list-style-type: none"> • But the key question is how to on the one hand cope with the cost pressure while not reducing the margins, and on the other hand the idea that wages should be increasing. (Puma S.A.F.E. Department) • But the way we approached it, is to try to speak to our consumers in the appropriate language - using phrases, a terminology and iconography that they can relate to easily and already expect from our brand. (International Marketing Department) • Once we have the results, we need of course to sit at a table and see what the next step should be. As you know, one cannot pay fair wages over night! Many other parameters have to be adjusted for doing so. (Puma S.A.F.E. Department) • We need to start with sustainable fabrics, then we would probably cut down elements in the design that would increase the pricing. So, in other words, we are trying to achieve our goals by also re-thinking design. In the end, it doesn't necessarily need to result in less interesting products. <p>Q: Do you have to make trade-offs sometimes?</p> <p>A: No! Well, to be honest, sometimes yes...sometimes we need to see "ok, what are we doing now?" (Design Apparel Department)</p>
--	--